

Report  
of the  
Examination of  
Vinland Town Mutual Insurance Company  
Oshkosh, Wisconsin  
As of December 31, 1998

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May 14, 1999

Honorable Connie L. O'Connell  
Commissioner of Insurance  
State of Wisconsin  
121 East Wilson Street  
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of  
December 31, 1998, of the affairs and financial condition of

VINLAND TOWN MUTUAL INSURANCE COMPANY  
Oshkosh, Wisconsin

and the following report thereon is respectfully submitted:

## **I. INTRODUCTION**

The last examination of this company was made in 1994 as of December 31, 1993.  
The current examination covered the intervening time period ending December 31, 1998, and  
included a review of such subsequent transactions deemed essential to complete this  
examination.

The Summary of Examination Results contains elaboration on all areas of the  
company's operations. Special attention was given to the action taken by the company to satisfy  
the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on  
June 25, 1873, under the provisions of the then existing Wisconsin Statutes.

During the period under examination, there were two amendments to the articles of  
incorporation and one amendment to the bylaws. During the subsequent period, there was one  
amendment to the articles of incorporation.

During the period under examination, the company amended its articles of incorporation to increase its writing territory to include the counties of Green Lake and Brown and to clarify the requirements of the directorship. The bylaws were amended to clarify the duties of the treasurer.

Subsequent to the period under examination, the company amended its articles of incorporation to increase its writing territory to include the counties of Shawano, Portage, Dodge, and Marquette.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Brown, Calumet, Dodge, Fond du Lac, Green Lake, Marquette,  
Outagamie, Portage, Shawano, Waupaca, Waushara, and Winnebago

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance premium basis. Policy fees are not charged by the company.

Business of the company is acquired through four agents, three of whom are directors of the company. Agents are presently compensated for their services as follows:

<b>Type of Policy</b>	<b>Compensation</b>
New business	20.00%
Renewals	12.25

\*For 1999, the compensation for new business and renewals is 15%.

If a director refers business to an agent, the director receives a 7.75% referral commission and the agent receives 12.25%. The referral commission is paid as a "finder's fee". The company's unlicensed and unlisted directors do not bind insurance coverage, make quotes, or service the policies. For 1999, the "finder's fee" has been discontinued.

The company secretary/manager receives no commission on renewal business but receives commissions on new business. In 1998, this was included as part of salary paid. For

1999, commissions will be determined separately from salary, since in the future the secretary position could be separated from the manager position.

Agents have authority to adjust losses up to \$1,000.00. Losses in excess of this amount are adjusted by the adjustment committee. Adjusters receive \$30.00 for each loss adjusted plus \$.30 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

### **Board of Directors**

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>	<b>Expiry</b>
Floyd Grundy	Retired/Sales	Oshkosh, WI	2001
Dale Wilde	Farmer	Oshkosh, WI	2000
Howard Beck	Retired	Oshkosh, WI	2000
George Tipler*	Vinland Manager	Oshkosh, WI	2002
Jack Zeller*	Farmer	Oshkosh, WI	2002
Larry Volp	Programmer/Analyst	Omro, WI	2001
Peter Carlson*	Draftsman, Construction Project Manager	Oshkosh, WI	2002
Daryl Jensen	Sales	Oshkosh, WI	2001
Jeff Selle	Contractor/Carpentry	Winneconne, WI	2000

\* Indicates director is licensed as an agent for the company.

Members of the board currently receive \$40 for each board meeting, \$80 for an all-day meeting, \$40 per diem for the annual meeting, and 3 all day per diems (\$120) for a 3-day convention attended.

### **Officers**

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

<b>Name</b>	<b>Office</b>	<b>Annual Salary</b>
Floyd Grundy	President	\$ 2,800
Dale Wilde	Vice-President	0
Howard Beck	Treasurer	3,600
George Tipler	Secretary/Manager	35,844*

\*This amount includes salary plus commissions on renewal business.

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The company had two committees at the time of the examination: an adjusting committee to adjust losses and an investment committee to review investments. The adjusting committee is comprised of the entire board. The investment committee is comprised of the officers of the board.

## Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1994	\$200,269	\$104,888	1,142	\$90,544	\$2,381,235	\$2,175,990
1995	218,524	175,293	1,160	27,222	2,383,623	2,204,837
1996	210,174	142,194	1,189	47,717	2,487,068	2,273,285
1997	208,681	201,121	1,188	24,201	2,468,738	2,288,264
1998	225,034	225,823	1,191	(8,661)	2,472,858	2,300,956

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Net
1994	\$311,693	\$194,981	\$2,175,990	14.3%	9.0%
1995	338,651	215,897	2,204,837	15.4	9.8
1996	379,445	230,375	2,273,285	16.7	10.1
1997	364,599	215,418	2,288,264	15.9	9.4
1998	376,309	219,157	2,300,956	16.4	9.5

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Underwriting Gain/Loss	Loss Ratio	Expense Ratio	Composite Ratio
1994	\$104,888	\$132,779	\$ (37,399)	52%	68%	120%
1995	175,293	148,569	(105,338)	80	69	149
1996	142,194	144,787	(76,807)	68	63	131
1997	201,121	134,083	(126,523)	96	62	159
1998	225,823	145,261	(146,050)	100	66	167

The company has historically reported expense ratios that are significantly higher than town mutual averages. The period under examination is no exception. The underwriting expenses of the company have resulted in underwriting losses for seven consecutive years; however, due to investment income, the company has shown a net income every year except 1998. The net loss incurred during 1998 is more the result of significant losses incurred from adverse weather (windstorms) during the year. The company is taking steps to reduce its high

expense ratio which include potential changes to the reinsurance program, anticipated increases in premium volume, and changes to the manager's salary.



## II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 1999, continuous
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

- |                      |   |
|----------------------|---|
| Type of contract:    | Class A - Excess of Loss  |
| Lines reinsured:     | Nonproperty   |
| Company's retention: | \$500 for each and every loss occurrence up to policy limits.   |
| Coverage:            | 100% in excess of the company's retention including loss adjusting expense. Subject to policy limits of \$1,000,000 per occurrence, single limit, for bodily injury and property damage; \$1,000,000 split limits, in any combination of bodily injury and property damage; and, \$5,000 for medical payments, per person; \$25,000 per accident. |
| Reinsurance premium: | 75% of the premium written, except the company retains the excess premium on CPL policies over the published rates of the reinsurer.  |
- |                      |   |
|----------------------|---|
| Type of contract:    | Class B - First Surplus   |
| Lines reinsured:     | All property business written   |
| Company's retention: | <p>When the company's retention is \$300,000 or more in respect to a risk, the company may cede on a pro rata basis up to \$800,000.</p> <p>When the company's retention is \$300,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk.</p> <p>The company retains an additional 10% of losses, which would otherwise be ceded under the contract.</p> |
| Coverage:            | Pro rata share of each and every loss, including loss adjustment expenses, corresponding to the amount of the risk ceded.   |

- |                      |   |
|----------------------|---|
| Reinsurance premium: | Pro rata portion of premiums corresponding to the amount of each risk ceded.                  |
| Ceding commission:   | 15% provisional commission, with a minimum of 15% and maximum of 35% based on the loss ratio. |
3. Type of contract: Class C-1 - Excess of Loss
- |                      |  |
|----------------------|--|
| Lines reinsured:     | All property business  |
| Company's retention: | \$30,000 per loss and an annual aggregate deductible of \$30,000   |
| Coverage:            | 100% in excess of the company's retention, excluding loss adjustment expenses, subject to a limit of \$70,000 per loss.  |
| Reinsurance premium: | <p>Net premium written times [sum of the prior four years' losses incurred plus the current year's losses incurred divided by the total net premiums written for corresponding five-year period times 100/80ths].</p> <p>Minimum rate of 6% of current net premiums written and maximum rate of 19% of current net premiums written.</p> <p>Deposit premium of \$48,000.</p> |
4. Type of contract: Class C-2 - Second Excess of Loss
- |                      |   |
|----------------------|---|
| Lines reinsured:     | All property business   |
| Company's retention: | \$100,000 for each and every risk resulting from one loss occurrence.   |
| Coverage:            | 100% of each loss occurrence, excluding loss adjusting expenses, in excess of \$100,000 up to a maximum of \$200,000. |
| Reinsurance premium: | 6% of current net premiums written with a minimum premium of \$12,000.  |
5. Type of contract: Class D/E - Stop Loss
- |                      |   |
|----------------------|---|
| Lines reinsured:     | All business written  |
| Company's retention: | Annual aggregate losses, excluding loss adjusting expenses, equal to 75% of annual net premiums written.                        |
| Coverage:            | 100% of annual aggregate losses, excluding loss adjusting expenses, in excess of retention. Minimum net retention of \$165,000. |

Reinsurance premium:

Rate of losses incurred divided by net premiums written for the last eight years' losses incurred times 125%, applied to net premiums written with a minimum rate of 6% and a maximum rate of 25%. Deposit premium of \$16,500. Minimum premium of \$13,200.

### **III. FINANCIAL DATA**

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 1998. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Policyholders' Surplus."

**Vinland Town Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 1998**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash Deposited in Checking Account	\$ 60,066	\$	\$	\$ 60,066
Bonds (at Amortized Cost)	1,302,448			1,302,448
Stocks or Mutual Fund Investments (at Market)	865,012			865,012
Mortgage Loans on Real Estate				
Premiums and Agents' Balances In Course of Collection	17,291			17,291
Premiums and Agents' Balances and Installments Booked But Deferred and Not Yet Due	18,852		3,315	15,537
Investment Income Due or Accrued		60,377		60,377
Reinsurance Recoverable on Paid Losses and LAE	142,965			142,965
Electronic Data Processing Equipment - Excluding Software (Cost Less Accumulated Depreciation)	1,613			1,613
Fire Dues Recoverable	60			60
Other Assets (Show in Detail)				
Reinsurance Contingent Commission Receivable	5,317			5,317
Other	2,172			2,172
Furniture and Fixtures	<u>822</u>	<u>          </u>	<u>822</u>	<u>          </u>
<b>TOTALS</b>	<b><u>\$2,416,618</u></b>	<b><u>\$60,377</u></b>	<b><u>\$4,137</u></b>	<b><u>\$2,472,858</u></b>

**Liabilities and Surplus**

Net Unpaid Losses	\$ 400
Unpaid Loss Adjustment Expenses	3,500
Commissions Payable	1,320
Net Unearned Premiums	157,905
Other Liabilities:	
Nonexpense	
Premiums Received in Advance	<u>8,777</u>
TOTAL LIABILITIES	171,902
Policyholders' Surplus	<u>2,300,956</u>
TOTAL	<u>\$2,472,858</u>

**Vinland Town Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 1998**

Net Premiums and Assessments Earned	<u>\$ 225,034</u>
Deduct:	
Net Losses Incurred	205,889
Net Loss Adjustment Expenses Incurred	19,934
Other Underwriting Expenses Incurred	<u>147,698</u>
Total Losses and Expenses Incurred	<u>373,521</u>
Net Underwriting Loss	<u>(148,487)</u>
Net Investment Income:	
Net Investment Income Earned	135,718
Net Realized Capital Gains	<u>3,359</u>
Total Investment Income	<u>139,077</u>
Other Income:	
Miscellaneous Income	<u>749</u>
Net Investment and Other Income	<u>139,826</u>
Net Loss Before Policyholder Dividends and Before Federal Income Taxes	(8,661)
Policyholder Refunds or Dividends	<u>0</u>
Net Loss Before Federal Income Taxes	(8,661)
Federal Income Taxes Incurred	<u>0</u>
Net Loss	<u><u>\$ (8,661)</u></u>

**Vinland Town Mutual Insurance Company**  
**Reconciliation and Analysis of Surplus as Regards Policyholders**  
**For the Five-Year Period Ending December 31, 1998**

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1993		\$2,082,464
<b>1994</b>		
Net income (loss)	\$90,544	
Net unrealized capital gains or losses	(1,001)	
Change in nonadmitted assets	<u>3,983</u>	
Change in surplus as regards policyholders for the year		<u>93,526</u>
Surplus as regards policyholders, December 31, 1994		2,175,990
<b>1995</b>		
Net income (loss)	27,222	
Net unrealized capital gains or losses	1,516	
Change in nonadmitted assets	<u>109</u>	
Change in surplus as regards policyholders for the year		<u>28,847</u>
Surplus as regards policyholders, December 31, 1995		2,204,837
<b>1996</b>		
Net income (loss)	47,717	
Net unrealized capital gains or losses	16,725	
Change in nonadmitted assets	<u>4,006</u>	
Change in surplus as regards policyholders for the year		<u>68,448</u>
Surplus as regards policyholders, December 31, 1996		2,273,285
<b>1997</b>		
Net income (loss)	24,201	
Net unrealized capital gains or losses	(5,887)	
Change in nonadmitted assets	<u>(3,335)</u>	
Change in surplus as regards policyholders for the year		<u>14,979</u>
Surplus as regards policyholders, December 31, 1997		2,288,264
<b>1998</b>		
Net income	(8,661)	
Net unrealized capital gains or losses	21,648	
Change in nonadmitted assets	<u>(295)</u>	
Change in surplus as regards policyholders for the year		<u>12,692</u>
Surplus as regards policyholders, December 31, 1998		<u>\$2,300,956</u>



### **Reconciliation of Policyholders' Surplus**

There were no adjustments or reclassifications made to surplus as a result of this examination.

## IV. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is suggested that the company execute formal written agreements with its agents that includes language indicating the agent will represent the company's interests "in good faith."

Action—Compliance.

2. Underwriting—It is suggested that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

Action—The current examination made this a recommendation.

3. Underwriting—It is recommended that, for each policy issued on a risk-sharing basis, the company maintain a current copy of the corresponding policy issued by the other insurer and review such to determine that the exposures are identical.

Action—Compliance.

4. Invested Assets—It is recommended that the company enforce the provisions of its custodial agreement regarding persons authorized to conduct transactions, or otherwise establish a system where timely notification of transactions are made to the company.

Action—Compliance.

5. Invested Assets—It is recommended that the company modify the managed asset agreement with its broker to assure that investments are made in compliance with the investment regulations applicable to town mutual insurers as define in s. Ins 6.20, Wis. Adm. Code.

Action—Compliance.

6. Net Unpaid Losses—It is recommended that the company maintain a proper loss register in compliance with s. Ins 13.05 (3) (f), Wis. Adm. Code.

Action—Compliance.

7. Net Unpaid Losses—It is recommended that the company comply with the minimum standards for loss claim documentation as specified in s. Ins 13.05 (4) (e), Wis. Adm. Code. It is further recommended that the company obtain signed proofs of loss in settlement of its claims.

Action—Substantial compliance, see comments in the summary of current examination results.

8. Net Unpaid Losses—It is recommended that the company amend its procedures and its loss adjustment manual to comply with s. 631.81 (1), Wis. Stat.

Action—Compliance.

## **Current Examination Results**

### **Corporate Records**

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

### **Conflict of Interest**

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

### **Fidelity Bond and Other Insurance**

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity Bond	\$ 110,000
Insurance Agents Errors & Omissions	1,000,000
Worker's Compensation	
Bodily Injury by accident (each accident)	100,000
Bodily Injury by disease (policy limit)	500,000
Bodily Injury by disease (each employee)	100,000
Combined Insurance Company Liability and Directors and Officers Liability	1,000,000
Commercial Property - Contents Coverage	16,700

The company also offers as employee benefit long-term disability coverage.

## **Underwriting**

The company has a written underwriting guide. The guide is not current and does not cover all lines of business that the company is presently writing. Current information for all lines written was not included; reference was made in the guidelines to three-year policies, when only one-year policies are written. The company writes commercial business, which does not have formal company-written underwriting guidelines. The commercial line represents approximately 10-15% of the total premium written by the company; however, about 3% of this business is incidental property business written directly by the company. The remaining business is written following guidelines established under the company's reinsurer's commercial program. It would be beneficial to the company to have formal company-written guidelines for the incidental commercial business at least indicating the reinsurer's guidelines are to be followed. Therefore, it is recommended that the company continually review and update its underwriting guidelines to reflect the company's current practices and lines of business.

While the company's two main agents have been performing inspections, the company does not have a formal written inspection procedure for new and renewal business. A formal written inspection procedure would be beneficial to the company considering the growth the company has experienced and a pending merger. It is recommended that the company establish a formal written inspection procedure for new and renewal business, whereby a sampling of new applications and renewal business is inspected by committee members independent of the risk under consideration.

The company currently has issued approximately 50 policies written on a risk-sharing basis with another town mutual insurer. The writing of proportional reinsurance is permitted by s. 612.31 (5), Wis. Stat. However, if the companies writing such policies do not use the same policy forms, the possibility exists that one company could be liable for more than its expected share of the risk because the other company's policy does not cover the same exposures or have the same limits. A review of a sample of the risk-sharing policies showed that the company is properly maintaining copies of the corresponding policies in force with the other insurer.

## **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

## **Accounts and Records**

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 1998.

The company is audited annually by an outside public accounting firm.

## **EDP Environment**

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept both on- and off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

## **Disaster Recovery Plan**

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer is lost, or the office building is destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

## **Invested Assets**

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

## **Transition into the New Investment Rule**

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of

only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 471,902
2. Liabilities plus 33% of gross premiums written	296,084
3. Liabilities plus 50% of net premiums written	281,481
4. Amount required (greater of 1, 2, or 3)	471,902
5. Amount of Type 1 investments as of 12/31/98	<u>1,156,417</u>
6. Excess	<u>\$ 684,515</u>

The company has sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has three investments, with a statement value of \$83,888, which are not in compliance with the new investment rule. The company's plan to bring these investments into compliance was approved by the Commissioner.

## **ASSETS**

<b>Cash and Invested Cash</b>	<b>\$60,066</b>
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The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	\$60,066
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Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of the checking account balance was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

<b>Book Value of Bonds</b>	<b>\$1,302,448</b>
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The above asset consists of the aggregate book value of bonds held by the company as of December 31, 1998. Two bonds owned by the company are held in a safety deposit box, all other bonds are held under a safekeeping agreement with a bank.

Bonds were verified by obtaining a confirmation directly from the custodial bank and agreeing amounts to company records. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 1998 on bonds amounted to \$31,102 and was traced to cash receipts records. Accrued interest of \$8,515 at December 31, 1998, was checked and allowed as a nonledger asset.

<b>Stocks and Mutual Fund Investments</b>	<b>\$865,012</b>
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The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 1998. Stocks owned by the company are located in the company's safety deposit box. Money market mutual funds held by the company are held under a custodial agreement with a bank.

Stock and mutual fund investments were verified by direct confirmation with the issuing company or custodian. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks



and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 1998 on stocks and mutual funds amounted to \$3,559 and were traced to cash receipts records. Accrued dividends of \$35,560 at December 31, 1998, were checked and allowed as a nonledger asset.

**Uncollected Premiums** **\$17,291**

The above ledger asset represents the amounts due from policyholders which are not in excess of 90 days past due at year-end. A review of individual accounts determined that the correct amount is \$3,315 less than that reported due to the company improperly reducing deferred premiums instead of uncollected premiums by the overdue amounts. A reclassification of this amount is not being made since it is below tolerable error. A recommendation related to this error is reflected in "Premium Booked But Deferred and Not Yet Due" section of this report

**Premium Booked But Deferred and Not Yet Due** **\$15,537**

The above ledger asset represents premiums which are receivable from policyholders but which are not yet due as the policyholder has chosen a semiannual or quarterly billing mode. The company's computer system calculates those amounts, which are deferred. A test of the accuracy of the system was performed with no exceptions noted. The amount determined by the examiners was \$3,315 more than that reported by the company. As previously stated, the difference is because the company incorrectly reduced deferred premiums, rather than uncollected premiums, for amounts over 90 days past due. No reclassification will be made; however, it is recommended that the company properly report premiums booked but deferred and not yet due on all future annual statements.

**Investment Income Due and Accrued** **\$60,377**

Interest due and accrued on the various assets of the company at December 31, 1998, consists of the following:

Book Value of Bonds	\$24,817
Stocks and Mutual Funds	<u>35,560</u>
Total	<u>\$60,377</u>

The accrued amounts were verified by tracing the amounts to subsequent receipt.

**Reinsurance Recoverable on Paid Losses** **\$142,965**

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 1998. A review of year-end accountings with the reinsurer verified the above asset.

**Electronic Data Processing Equipment** **\$1,613**

This asset consists of computer equipment, excluding software and net of accumulated depreciation, owned by the company at December 31, 1998. Examiners verified the cost basis of this equipment to company records and evaluated the company's depreciation schedule for propriety in establishing the amount of this asset. The amount reported for electronic data processing equipment appears reasonable.

**Fire Dues Recoverable** **\$60**

This asset is the result of an overpayment of fire dues for 1998. The amount was verified to the OCI premium tax system.

**Reinsurance Contingent Commissions Receivable** **\$5,317**

The examiners verified the accuracy of this asset by reviewing year-end statements provided by the reinsurer. The amount reported was reasonably stated.

**Other Assets** **\$2,172**

This asset consists of an amount due from another town mutual insurer as reimbursement for expenses. A review of subsequent receipt verified this amount.

**Equipment, Furniture, and Supplies** **\$0**

This asset consists of \$822 of office furniture and equipment owned by the company at December 31, 1998. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

## LIABILITIES AND SURPLUS

### Net Unpaid Losses

**\$400**

This liability represents losses incurred on or prior to December 31, 1998, and remaining unpaid as of that date. The examiners determined the reasonability of this liability by reviewing the calculation of the company's estimate and recalculating the attachment point of the company's stop-loss reinsurance coverage.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files did not contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

The examiners reviewed a sample of all types of claim files maintained by the company. Claim files relating to paid claims, claims closed without payment, and denied claims all contained sufficient investigatory data and documentation to verify settlement payments and reserve estimates. Open claim files did not contain such information. Claim number, date reported, reserve estimates, and coverage in effect oftentimes could not be ascertained directly from the open claim file. The information, however, was available on the company's computer system. The previous examination recommended that the company comply with the minimum standards for loss claim documentation as specified in s. Ins 13.05 (4) (e), Wis. Adm. Code. The company has substantially complied with this recommendation as all claim files with the exception of open claim files contain sufficient information. It is recommended that the company, for open claims, comply with the minimum standards for loss claim documentation as specified in s. Ins 13.05 (4) (e), Wis. Adm. Code.

### Unpaid Loss Adjustment Expenses

**\$3,500**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 1998, but which remained unpaid as of year-end. The

methodology used by the company in establishing this liability is based upon a percentage of the gross property loss reserves established by the company.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

**Commissions Payable** **\$1,320**

This liability represents the commissions payable at December 31, 1998. The examiners reviewed the company's commission calculation and found the liability to be correctly calculated.

**Unearned Premiums** **\$157,905**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using the daily pro rata method, which was approved for use by the Office of the Commissioner of Insurance. The examiners found this liability to be adequately stated.

**Premiums Received in Advance** **\$8,777**

This liability represents premiums received from policyholders for policies not yet effective. A review of the company's cash receipts records and advance premium reports verified the accuracy of this line item.

## **V. CONCLUSION**

Policyholders' surplus has increased 10.5% since the last examination; from \$2,082,464 in 1994 to \$2,300,956 in 1998. Assets increased 4%; from \$2,381,235 in 1994 to \$2,472,858 in 1998. Premium has shown moderate growth over the past five years with an overall increase of 21% since the last examination.

There were four recommendations made as a result of this examination. These recommendations mainly related to improvements to the company's underwriting and claim functions. The company needs to address its high expense ratios, while also improving its documentation of underwriting guidelines, inspection procedures, and documentation of claim files.

There were no adjustments or reclassifications to surplus as a result of this examination. The company's financial position remains strong.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Underwriting - It is recommended that the company continually review and update its underwriting guidelines to reflect the company's current practices and lines of business.
2. Page 18 - Underwriting - It is recommended that the company establish a formal written inspection procedure for new and renewal business, whereby a sampling of new applications and renewal business is inspected by committee members independent of the risk under consideration.
3. Page 23 - Premium Booked But Deferred and Not Yet Due - It is recommended that the company properly report premiums booked but deferred and not yet due on all future annual statements.
4. Page 25 - Net Unpaid Losses - It is recommended that the company, for open claims, comply with the minimum standards for loss claim documentation as specified in s. Ins 13.05 (4) (e), Wis. Adm. Code.

## **VII. ACKNOWLEDGMENT**

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Jean Cox of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Respectfully submitted,

Kris DeArmond  
Examiner-in-Charge

## **VIII. SUBSEQUENT EVENTS**

On June 29, 1999, merger documents were submitted for OCI approval for the merger between Vinland Town Mutual Insurance Company and Winchester Mutual Insurance Company. These were approved by OCI on July 14, 1999 and by members of both companies on August 18, 1999. September 1, 1999, the merger will be effective with Vinland the surviving company. The newly merged company will operate under the name "The Homestead Mutual Insurance Company". As a result of the merger, the surviving company will have assets of approximately \$4.4 million and surplus of \$4.1 million.

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